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DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

Secret

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3 January 1969

State Dept. review completed

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Approved For Release 2004/01/15 : CIA-RDP79T00975A012800130001-5

Approved For Release 2004/01/15 : CIA-RDP79T00975A012800130001-5

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No. 0003/69
3 January 1969

Central Intelligence Bulletin

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[South Vietnam: Communist main force units continue to shun contact with allied sweep operations. Enemy-initiated activity on 1-2 January was confined to limited rocket and mortar attacks against allied field positions. Several ambushes of allied naval patrols along the canals in the Mekong Delta also occurred.

Communist units in the western III Corps area appear to be preoccupied with preparations for what is termed in enemy documents "a new phase of the winter-spring campaign." Documents captured in a Communist subregion north of Saigon reflect planning for a significant augmentation of personnel both from local recruitment and by reinforcement with new units.

Meanwhile, prisoners captured on their way to Saigon claim they were infiltrating the capital city in order to develop an "urban guerrilla" force.



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European Community: Community circles in Brussels are profoundly pessimistic about any early moderation of France's negative attitudes toward the community.

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The permanent representatives of the Five in Brussels expect no easing of this situation so long as De Gaulle remains in power. They regard the recent slight movement by France on technology and patent questions as a minimum tactical concession.

Pro-community Frenchmen in Brussels believe that the only course of action open to the community is to plan for the post - De Gaulle period, when they foresee a "more moderate and responsible" Gaullist government. They claim that many Gaullists appreciate that French interests will be served by a stronger European Community.

There is, meanwhile, no expectation in Brussels of any change during the De Gaulle regime of French policy against British membership. The "commercial arrangements" proposed between the community and other interested European states are seen as a French diversion--unwittingly furthered by Bonn--to keep the British out.

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Panama: Chances of an early return to a constitutionally elected president and legislature appear increasingly remote.

The "revolutionary" junta government has indicated to the three-member Electoral Tribunal its preference for a "nonpartisan" presidential election to be held in 1970 outside the traditional political party structure, [REDACTED]

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[REDACTED] Such a plebiscite apparently would allow voters to select a president from several hand-picked candidates.

The tribunal, appointed by the junta to revise the election code and draw up a timetable for new elections, [REDACTED] envisions a president chosen by "popular consultation" for a six-year term. General elections for a president and a new National Assembly would be postponed until 1976 while the political party system is "restructured." This could include the organization of an official party by the junta and its national guard sponsors.

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Although such a long delay in selection of a legislative body seems to preclude constitutional action on a canal treaty settlement, the junta might resurrect some form of the earlier assembly if it decides to press the US on the treaty issue. [REDACTED]

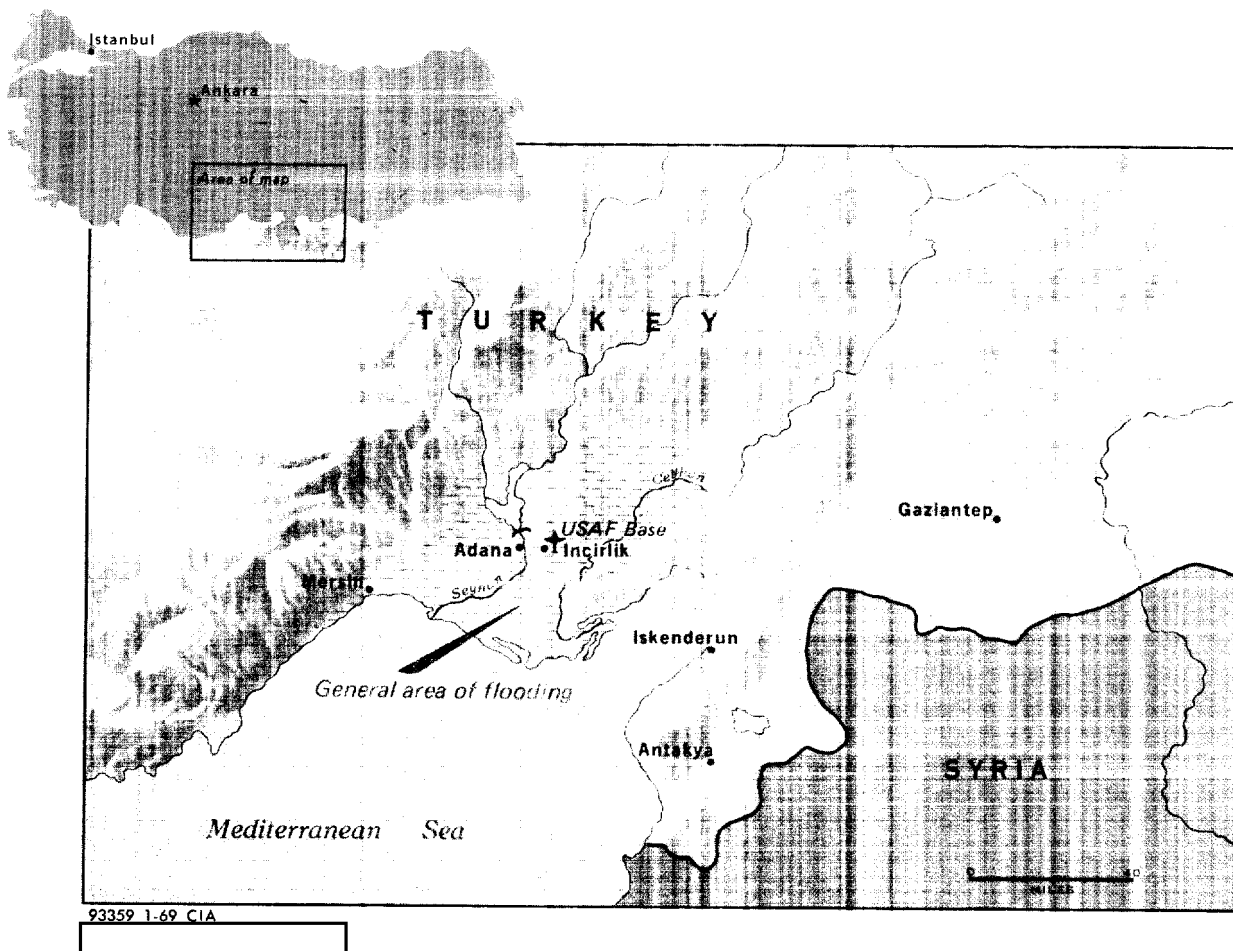
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Turkey: Economic consequences of the 25-27 December floods in southern Turkey are expected to be serious.

The Atlas refinery at Mersin, which produces 85,000 barrels of oil a day or two thirds of Turkey's total output, is shut down and may not be back in operation until the end of January. This will soon lead to a nationwide fuel shortage that will require using scarce foreign exchange to import refinery products.

A thermoelectric generating plant, also at Mersin, will be out of operation for at least ten days. The undamaged hydroelectric plant situated above Adana lacks the capacity to meet all the needs of the area, and a number of nearby installations, including the US Air Force facility at Incirlik, are generating their own power. The anticipated fuel shortage will complicate matters still more for the Turkish generating plants.

A large wheat producer in the fertile Cukurova district reports a total crop loss, a setback that could be especially harmful because the wheat was probably the Sonora type, introduced last year with excellent results. It is now too late for replanting wheat, and cotton will probably be substituted for this growing season.

Costs arising from these production losses, from unavoidable and unanticipated compensatory imports, and from relief and reconstruction will place a severe strain during the coming months on the already heavily burdened Turkish economy.

(Map)

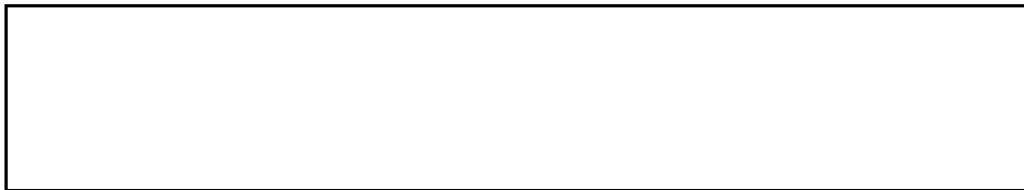
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Pakistan-USSR: Soviet-Pakistani arms negotiations will resume later this month when Soviet Defense Minister Grechko visits Rawalpindi.

The discussions probably will result in the conclusion of Pakistan's first military aid agreement with the USSR. The Soviets promised Pakistan military aid last June, but the details remain to be ironed out. The agreement probably will cover the supply of ground forces equipment, including tanks, and possibly some jet aircraft.



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Philippines: Carlos Romulo's first policy statement as the new foreign secretary was largely influenced by election year politics, but it may also foreshadow tougher bargaining with the US.

Romulo promised that the Philippines would now be more assertive in pursuing its interests and said that treaties with the US would come under close scrutiny. A major candidate for review is likely to be the Laurel-Langley agreement that governs US-Philippine economic relations. Although the agreement does not expire until 1974, negotiations on revised economic ties are a political necessity for President Marcos before he faces re-election in November. These negotiations may well be acrimonious, and disputes arising from both the present agreement and from related laws on investment will probably be treated by the Philippine Government from an increasingly nationalistic standpoint.

Despite Romulo's call for an examination of the need for US military bases in the Philippines and his reference to the "diminishing value of reliance on one's friends," the Philippines does not seriously feel that it can dispense with the US security shield. The professed Philippine intention to be more self-reliant may, however, suggest more difficult negotiations ahead on general military questions relating to the US.

Romulo made no reference to the Sabah dispute, but instead called for closer ties with Asian neighbors and greater emphasis on participation in regional organizations. The Philippines' neighbors doubtless view this pronouncement with some skepticism in view of the tactics Manila has used to push its Sabah claim, tactics that have almost paralyzed the Association of Southeast Asian Nations. [REDACTED]

[REDACTED]

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Uganda: Rumors are widely circulating in Kampala that President Milton Obote is facing a serious challenge to his control of the army.

These rumors allege that there has been an irrevocable split between the President and armed forces commander Idi Amin. Each is said to be lining up adherents among the army's junior officers by blackguarding the other. The army, so the rumors say, is now divided into factions favoring Amin or Obote, with still another faction waiting to see who will gain the upper hand.

The rumors follow the discovery and apparent quashing on 21 December of a plot by noncommissioned officers and others to seize control of units of the army and eventually the government. To date some 40 persons have been arrested as participants in the plot, but no important figures have been either arrested or implicated.

The current flurry of rumors of an Amin-Obote split may be no more than a reflection of the uneasiness caused by the uncovering of the plot. Amin has been primarily interested in keeping his position as army commander and has shown little ambition to head the government. He is also tied closely to the President by past events. Should Amin believe, however, that his position in the army is challenged, he might move against Obote's government. Obote in the past has been most careful not to offend Amin, and there have been no reports that he plans any overhaul of the army.

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UN: The annual change in the composition of the Security Council may affect its voting pattern on certain key issues.

On 1 January, Finland, Spain, Zambia, Nepal, and Colombia replaced Denmark, Canada, Ethiopia, India, and Brazil in accordance with the traditional pattern of regional representation. Spain has supported Arab positions in previous Middle East disputes.

The Security Council early this year may face African-inspired proposals calling for the elimination of South Africa's control over South-West Africa. Zambia is expected to push the issue of white rule in Rhodesia and elsewhere in southern Africa. Spain will be seeking support among the Africans for its position vis-a-vis Gibraltar.

There is also always the possibility that the Communist China seating question may again be raised in some way in the Council. While Security Council resolutions may be vetoed by any of the five permanent members--the US, USSR, France, the UK, and Taiwan--the change in the composition of the Security Council may somewhat strengthen the ranks of those who favor seating Peking and may lead to debate on the issue.

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Israel - Arab States: The Israelis are continuing extensive overflights of the southern Lebanon border area, and almost certainly will retaliate if there are further guerrilla attacks from Lebanon on their northern villages. US Embassy officials report that the New Year's eve rocket attack on one of these villages has provoked considerable emotion in Israel. Yesterday, the Israelis--as they have been doing with increasing frequency--called in aircraft to bomb villages in northern Jordan following a shelling incident. [REDACTED]

* * * *

USSR-Algeria: The USSR will replace France as the principal market for Algerian wine--Algeria's second most important export--under the terms of a seven-year trade agreement concluded late in December. Moscow agreed to purchase a minimum of five million hectoliters of wine annually, about three quarters of current Algerian output, as well as 500,000 tons of crude oil in exchange for Soviet equipment, primarily for its development projects in Algeria. There is no indication whether Moscow finally acceded to a proposal by Algeria that proceeds from Soviet purchases of wine also be used to pay salaries of Soviet technicians. [REDACTED]

* * * *

Malaysia-Philippines: An attempt by the foreign ministers of the Association of Southeast Asian Nations (ASEAN) to ease the Philippine-Malaysian dispute over Sabah has foundered. A meeting in Bangkok in mid-December drafted a joint communiqué which stated that outgoing Philippine Foreign Minister Ramos had reaffirmed recognition of Malaysia's sovereignty without prejudice to Manila's right to pursue its claim. The Philippine Government, however, subsequently insisted that significant changes be made in the draft. The Malaysians have rejected this move and have indicated an unwillingness to "cooperate" with Manila in ASEAN as long as the Philippine position remains unchanged. [REDACTED]

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Congo (Brazzaville): Army strong-man Ngouabi, the ex-paratrooper who led the military take-over last September, has moved to extend his control in Brazzaville by naming himself president and assuming the defense and security portfolios. He retains command of the armed forces and the presidency of the policy-making Revolutionary Council. The cabinet and the council still reflect a broad spectrum of local political factions, but Ngouabi apparently has strengthened his alliance with the left by promoting leftist-extremists in both bodies. [REDACTED]

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French West Indies: Communist-organized demonstrations protesting the visit of the French secretary of state for overseas departments are expected in Guadeloupe during the first week in January and may also occur in Martinique the following week. The security situation in Guadeloupe has been tense because of racial conflicts, unemployment, and the existence of a pro-Chinese extremist wing of the Communist Party. In Martinique, however, the party is considerably weaker. Police officials in both islands are confident that they can handle any trouble that arises. [REDACTED]

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